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85-3283

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 25, 1985

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer

Department of Agriculture
Department of Commerce
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of Transportation
ACTION
Agency for International Development
Council of Economic Advisers
Central Intelligence Agency
Environmental Protection Agency
General Services Administration
National Aeronautics and Space Administration
U.S. Information Agency
Veterans Administration
U.S. Postal Service
National Science Foundation

SUBJECT: Civil Service Supplemental Retirement System

For your information, attached is OPM Director Horner's testimony of October 24, 1985, before the House Post Office and Civil Service Committee on the Civil Service Supplemental Retirement System.

Naomi R Sweeney

Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

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STATEMENT OF
HONORABLE CONSTANCE HORNER
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

before the

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

at a hearing on

THE CIVIL SERVICE SUPPLEMENTAL
RETIREMENT SYSTEM PROPOSAL

OCTOBER 24, 1985

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE

THANK YOU FOR INVITING ME TO APPEAR TODAY TO DISCUSS THE PROPOSAL FOR A CIVIL SERVICE SUPPLEMENTAL RETIREMENT SYSTEM.

BEFORE I COMMENT ON THE SUBSTANCE OF THE PROPOSAL WE ARE CONSIDERING TODAY, LET ME ASSURE YOU THAT I AM COMMITTED TO WORKING WITH THE COMMITTEE TO DEVISE A RETIREMENT PLAN WHICH MEETS THE NEEDS OF FEDERAL EMPLOYEES AT A COST THE AMERICAN TAXPAYER CAN REASONABLY BE ASKED TO PAY. I WILL REGISTER STRONG OBJECTIONS TO MUCH OF WHAT YOU HAVE PROPOSED, SO IT IS IMPORTANT THAT MY OBJECTIONS -- WHICH REFLECT THE ADMINISTRATION'S POSITION -- NOT BE IN ANY WAY MISINTERPRETED.

DEVELOPING A RETIREMENT PLAN WHICH IS BOTH FAIR AND AFFORDABLE IS A TREMENDOUS CHALLENGE AND ONE IN WHICH THE PRINCIPAL ISSUES BEFORE US ARE NOT SOLELY THE DESIGN OR COST OF A NEW SYSTEM -- THOUGH BOTH ARE IMPORTANT -- BUT WHAT KIND OF WORKFORCE THIS NATION WANTS IN THE NEXT CENTURY. INDEED, AMERICA WILL BE

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FORTUNATE TO HAVE A CIVIL SERVICE IN THE YEAR 2030 THAT IS AS INTELLIGENT, AS HARD-WORKING, AND AS RESPONSIVE AS ARE THE CIVIL SERVANTS IN 1985. THE KIND OF RETIREMENT SYSTEM WE DEVISE NOW WILL BE A MAJOR FACTOR IN DETERMINING WHETHER WE ARE ABLE TO HAVE THAT KIND OF WORKFORCE. SO WE WILL HAVE TO RECOGNIZE THE CHANGES THAT ARE TAKING PLACE IN SOCIETY. OUR SOCIETY IS NOT ONLY GETTING OLDER AND WORKING LONGER BUT IS BECOMING MORE DIVERSE, MORE MOBILE, AND MORE FINANCIALLY LITERATE. FIRST AND FOREMOST, WE MUST DESIGN A SYSTEM FOR THE FUTURE, NOT ONE THAT REPEATS THE MISTAKES OF THE PAST. IN PURSUING THIS CHALLENGE, WE MUST APPROACH THIS TASK, AS I KNOW YOU DO, WITH A SENSE OF NONPARTISANSHIP. I UNDERSTAND THE IMPORTANCE AND URGENCY OF THE EFFORT BEFORE US, AND I COMMEND THE COMMITTEE FOR ENGAGING THE ISSUE.

THE ADMINISTRATION'S EMPHASIS ON THE PRIVATE SECTOR COMPARISON IS FAIR AND IN THE BEST INTEREST OF FEDERAL EMPLOYEES AND RETIREES. BUILDING A NEW SYSTEM WITH VERY EXPENSIVE FEATURES NOT ENJOYED BY MOST WORKING AMERICANS IS SIMPLY UNFAIR TO THE TAXPAYER AND UNNECESSARY FOR THE RECRUITMENT AND RETENTION OF QUALIFIED PERSONNEL. YOUR PROPOSED PLAN EMBODIES ALL THE ANACHRONISMS REFLECTIVE OF A FORMER PROFLIGATE ERA IN AMERICAN FISCAL LIFE -- FULLY INDEXED COST-OF-LIVING RAISES, UNREDUCED EARLY RETIREMENT, AND COSTS THAT GO WELL BEYOND THE TYPICAL PRIVATE SECTOR PLAN AND WHICH FAR EXCEED WHAT THE ADMINISTRATION CAN SUPPORT.

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YOUR PROPOSAL PROVIDES FULL BENEFITS AT AGE 55 WITH 30 YEARS OF SERVICE, FULL ANNUAL COST-OF-LIVING ADJUSTMENTS, AND AN ANNUITY FORMULA BASED ON THE EMPLOYEE'S HIGH THREE YEARS' SALARY. THESE ARE THE VERY FEATURES WHICH HAVE MADE THE CURRENT SYSTEM MUCH MORE COSTLY THAN TYPICAL PRIVATE SECTOR PLANS AND TOO COSTLY FOR THE FEDERAL GOVERNMENT AS AN EMPLOYER.

ACCORDING TO YOUR ESTIMATES, YOUR PROPOSAL MAINTAINS THESE FEATURES AT A COST OF 25.5% OF PAYROLL, WHICH IS EVEN GREATER THAN THE CURRENT SYSTEM COST. THE COST OF THE PROPOSED SYSTEM IS SIMPLY MORE THAN THE TAXPAYER SHOULD BE EXPECTED TO BEAR. IT FAR EXCEEDS THE PRESIDENT'S GOAL OF 20% OF PAYROLL AND FAR EXCEEDS THE 18% OF PAY TYPICAL OF PRIVATE SECTOR PLANS AS REPORTED TO THIS COMMITTEE IN THE BRIEFING MATERIAL PREPARED BY ITS CONSULTANT, THE HAY/HUGGINS COMPANY.

THE OUTLINE OF CSSRS OFFERS FULL PENSION BENEFITS AT AGE 55 WITH 30 YEARS OF SERVICE. THIS IS A PRACTICE THAT IS RARE IN THE PRIVATE SECTOR AND ONE THAT HAS A NEGATIVE IMPACT ON THE RETENTION OF TALENTED EMPLOYEES AT THE PEAK OF THEIR CAREERS. IN ADDITION, THE PROPOSED SUPPLEMENT FOR RETIREES BEFORE AGE 62 IS AN EXPENSIVE FEATURE THAT IS NOT FOUND IN THE TYPICAL PRIVATE SECTOR PLAN.

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WHILE WE AGREE THAT FEDERAL EMPLOYEES WITH SUFFICIENT SERVICE SHOULD BE ABLE TO CHOOSE TO RETIRE AS EARLY AS AGE 55, WE BELIEVE THAT BENEFITS SHOULD BE REDUCED TO REFLECT THE ADDED COST OF THIS EARLY RETIREMENT. THIS WOULD BRING THE FEDERAL SYSTEM INTO CLOSER ALIGNMENT WITH PRIVATE SECTOR PRACTICE.

PROBABLY THE SINGLE MOST OBJECTIONABLE FEATURE THAT CAN BE DISCERNED FROM THE OUTLINE OF YOUR PROPOSAL IS THE PROVISION FOR FULL ANNUAL COST-OF-LIVING ADJUSTMENTS. THIS VERY COSTLY PROVISION IS VIRTUALLY UNHEARD OF IN PRIVATE SECTOR PENSION PLANS. WHILE PRIVATE SECTOR WORKERS RECEIVE FULL COLA'S ON THEIR SOCIAL SECURITY BENEFIT, AS WOULD FEDERAL RETIREES UNDER THE NEW SYSTEM, THE TYPICAL PRIVATE SECTOR PRACTICE IS TO PROVIDE AD HOC (NOT ANNUAL) ADJUSTMENTS AT AN AVERAGE LEVEL OF ABOUT 30% OF THE CHANGE IN THE COST OF LIVING. WE BELIEVE THAT THE COLA'S SHOULD BE RESTRICTED TO MAKE THE SUPPLEMENTAL RETIREMENT SYSTEM MORE LIKE THE PENSION PLANS OF THE VAST MAJORITY OF AMERICAN WORKERS. A COLA FORMULA OF CPI MINUS 2% WOULD STILL BE GENEROUS AND WOULD BALANCE THE DESIRE FOR A MEASURE OF PREDICTABILITY WITH THE TRULY AD-HOC NATURE OF PREVAILING PRIVATE SECTOR PRACTICE. TO DEVELOP A SYSTEM WITH A SECOND FULL COLA ON TOP OF SOCIAL SECURITY'S FULL COLA IS MORE GENEROUS THAN USUALLY PREVAILS IN PRIVATE SECTOR PLANS AND IS CLEARLY UNWARRANTED.

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AGAIN FOLLOWING THE PATTERN FOUND IN THE BEST PRIVATE PLANS, ANNUITY COMPUTATIONS SHOULD BE BASED ON THE RETIREES HIGH FIVE YEARS OF EARNINGS, RATHER THAN ON THE HIGHEST THREE YEARS AS PROPOSED IN THE CSSRS.

THE PAYMENT OF BENEFITS TO ADULT STUDENTS FROM AGE 19 TO 22 IS AN EDUCATIONAL STIPEND AND IS CLEARLY INAPPROPRIATE IN A PENSION PLAN. WE CANNOT SUPPORT THIS PROVISION. THERE IS NO REASON FOR TAXPAYERS WHO THEMSELVES CANNOT AFFORD THIS BENEFIT TO PAY TO PROVIDE IT FOR ADULT SURVIVORS OF FEDERAL EMPLOYEES.

NO MENTION IS MADE OF CREDITING UNUSED SICK LEAVE IN THE SUMMARY OF CSSRS PROVISIONS. AS YOU KNOW, BOTH THE PRESIDENT'S BUDGET AND THE GRACE COMMISSION HAVE CALLED FOR ELIMINATING THIS ANOMALOUS AND ILLOGICAL BENEFIT FROM THE CURRENT RETIREMENT SYSTEM. UNUSED SICK LEAVE SHOULD NOT BE CONSIDERED A GIFT OF THE TAXPAYER TO THE FEDERAL EMPLOYEE FORTUNATE ENOUGH TO ENJOY GOOD HEALTH.

FINALLY, I WOULD LIKE TO TURN BRIEFLY TO ONE OF THE PROPOSAL'S MOST INTERESTING FEATURES, ITS CAPITAL ACCUMULATION PLAN. IT IS NOT CLEAR IF YOUR PROPOSED PLAN IS INTENDED TO BE A SALARY REDUCTION PLAN SIMILAR TO A 401(K) PLAN, BUT IF IT IS, WE OBJECT TO ITS INCLUSION. AS YOU KNOW, THE PRESIDENT'S TAX REFORM PROPOSALS, AS RECENTLY AMENDED, CALL FOR ELIMINATING 401(K) PLANS. HOWEVER, WE ARE VERY MUCH COMMITTED TO THE OBJECTIVE THAT THE CAPITAL ACCUMULATION

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PLAN IS TRYING TO MEET, NAMELY TO ENCOURAGE AND ASSIST EMPLOYEES TO SAVE FOR THEIR RETIREMENT IN ORDER TO SUPPLEMENT THEIR SOCIAL SECURITY AND BASIC PLAN BENEFITS. WE ARE WILLING TO WORK WITH YOU IN DEVELOPING AN APPROACH THAT WILL SATISFY THE IMPORTANT OBJECTIVES OF THE CSSRS'S CAPITAL ACCUMULATION PLAN AND BE CONSISTENT WITH THE PRESIDENT'S TAX REFORM PROPOSALS.

MY COMMENTS TODAY HAVE BEEN LIMITED TO THE OUTLINE OF YOUR PROPOSAL. WE LOOK FORWARD TO WORKING WITH YOU AND YOUR STAFF ON THE DETAILS ONCE THEY BECOME AVAILABLE.

THANK YOU AGAIN FOR THE OPPORTUNITY TO PRESENT THESE VIEWS. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

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